



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: **201220034**
Release Date: 5/18/2012

Date: February 23, 2012

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

UIL: 501.06-00

Dear :

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(6). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

Letter 4040 (CG) (11-2005)
Catalog Number 47635Z

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Lois Lerner
Director, Exempt Organizations

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter

Letter 4040 (CG) (11-2005)
Catalog Number 47635Z



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: January 3, 2012

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

LEGEND:

B = Name

C = State

D = Date

UIL:

501.06-00

501.06-01

Dear :

We have considered your application for recognition of exemption from federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code section 501(c)(6). The basis for our conclusion is set forth below.

Issues

- Do you qualify for exemption under section 501(c)(6) of the Code? No, for the reasons described below.

Facts

You were formed under the laws in the state of C on D. Your Articles of Incorporation provide the following:

This corporation may engage or transact in any lawful business under the laws of the United States, the State of C or any other state, country or territory. In addition to the above the purpose of the corporation shall be to promote business on a referral basis,

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by encouraging members to do business with other club members when ever possible.
No pecuniary gain is contemplated by the corporation.

Your original application states that you have one purpose, "to promote the business of your members through referrals." You are open to business owners and employees who wish to network with one another.

Your website's mission states you are:

a not-for-profit organization whose goal is to promote business on a referral basis, doing business with other club members whenever possible. The Club is devoted to the improvement of business conditions of all its members rather than any individual member, business or service.

The Benefits to Members Section of the web site states

In addition to the benefit of business referrals, members develop lasting friendships, and a sense of community. Members have a trusted network of service providers to call upon

The Benefits to Consumers Section of the website states:

Consumers—both newcomers and long-time area residents—who meet their shopping and services needs through B know they are dealing with reputable, established businesses.

Your website also contains a searchable membership directory and comprehensive membership list sorted by category.

Membership is open to business owners and is available by invitation only. Members are awarded exclusive business categories to avoid competition amongst members. You hold meetings twice each month and the meetings follow an established format:

- Networking
- Buffet-style Breakfast
- A one hour program which includes:
 - General Announcements
 - Guest speaker presentations
 - Brief promotional announcements by each member present.

One hundred percent of your revenue is from membership fees. One hundred percent of your expenses are attributable to activities related to your exempt purpose. You do not accumulate substantial financial reserves.

Law

Section 501(c)(6) of the Code provides exemption from federal income tax for "Business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), not organized for

profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the Income Tax Regulations states, "A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of the kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league."

In Revenue Ruling 56-65, 1956-1 CB 199, exemption under 501(c)(6) was not granted to a local organization whose principal activity consisted of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption from federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 as a business league even though it performs functions which are of benefit to the particular industry and the public generally.

In Revenue Ruling 59-391, 1959-2 C.B. 151, exemption under 501(c)(6) was denied to an organization composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession. The organization was created for the purpose of exchanging information on business prospects and had no common business interest other than a desire to increase sales of members. The revenue ruling found that the organization's activities were not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of its members.

Revenue Ruling 76-409, 1976-2 C.B. 154 denied exemption to an organization whose principal activity is the publication and distribution of an annual directory consisting almost entirely of members' names, addresses, and telephone numbers. The directory is distributed free to those members of the business community who are likely to require the services of the profession. It was held, the publication and distribution of a directory containing the names and addresses of members constitutes advertising for individuals, and therefore, is the performance of particular services to members rather than an activity aimed at the improvement of general business conditions.

Application of Law

You are not described in IRC 501(c)(6) because you are primarily organized and operated to perform particular services for your members. You are providing business referrals to both members and consumers.

You are not described in Section 1.501(c)(6)-1 of the Income Tax Regulations because the facts show you are formed and operated to promote your members' specific businesses. Your Articles of Incorporation and the mission statement on your web site specifically state your purpose is "to promote business on a referral basis, by encouraging members to do business with other club members when ever possible."

You are similar to the organization described in Rev. Rul. 56-65 because you maintain a website in which your members' business information is displayed. You also allocate a portion of your meetings towards promotional announcements by your members. Like the organization in the revenue ruling, you are primarily operated as a service to your individual members to increase their individual business prospects.

You are like the organization described in Rev. Rul. 59-391, in that your activities are not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of your members. Your membership consists of individual professionals from different businesses and like the organization in the revenue ruling, your members are not in competition with one another. Your members do not appear to have a common business interest other than a mutual desire to further the sales and client lists of the other members.

You are like the organization described in Revenue Ruling 76-409. Like this organization, your membership directory, your web site and the nature of your meetings further your primary purpose to promote the businesses of your members. Moreover, you are restricting membership to individual categories, which benefits individual members by giving them a competitive edge.

Applicant's Position

You wrote that your purpose is to promote local businesses in the local area through networking. You believe you are not like the organization in Rev. Rul. 56-65 because the purpose of your membership directory is not advertising but to show potential members what individual categories of businesses are available. You further stated it is unlikely some one would use your web site to locate a business.

You wrote you are similar to the organization in Rev. Rul. 59-391 except for one point. You do not require members to exclusively do business with each other nor necessarily encourage it. You stated networking is about people developing a level of knowledge and trust with other people so that they can do business and refer them to others. It is not about encouraging somebody to buy something just because the seller was your member. You are about allowing members to meet on a regular basis to promote local businesses through the art of net working. You also provide outside speakers to discuss topics such as marketing. Finally you stated that it all comes down to whether or not the organization carries on business of a kind that would normally be done by a for profit . It is hard for you to see how this business model could ever be carried on as a for profit business since there is no way to produce any profits. The only economic benefit you bring to members is a formalized meeting structure. There are for profit networking groups in your area that offer a plethora of benefits to members. You were not organized in such a manner. They have strict rules. You have less than 25 members and

charge significantly less than the for profit networking groups.

Service Response to Applicant's Position

You failed to provide any additional information from which it can be concluded that you are primarily organized and operated in accordance with section 501(c)(6). Even though you claim your directory is not advertising, the facts indicate that you are promoting your individual members' businesses. You also wrote that you are not requiring members to do business with each other; however, you are organized and operated to "promote business on a referral basis, by encouraging members to do business with other club members when ever possible." Finally, although you may not be operated to produce a profit, you are primarily operating for the private interests of your individual members as described previously.

Conclusion

Your overall activities, website, and membership requirements show that your primary purpose is to further the private business interests of your individual members and not the improvement of business conditions of one or more lines of business. You were created for the purpose of exchanging information on business prospects and have no common business interest other than a desire to increase sales of members; therefore, you not meet the requirements for exemption under IRC 501(c)(6).

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter.

We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*.

Types of information that should be included in your appeal can be found on page 2 of Publication 892, under the heading "Regional Office Appeal". The statement of facts (item 4) must be declared true under penalties of perjury. This may be done by adding to the appeal the following signed declaration:

"Under penalties of perjury, I declare that I have examined the statement of facts presented in this appeal and in any accompanying schedules and statements and, to the best of my knowledge and belief, they are true, correct, and complete."

Your appeal will be considered incomplete without this statement.

If an organization's representative submits the appeal, a substitute declaration must be included stating that the representative prepared the appeal and accompanying documents; and whether the representative knows personally that the statements of facts contained in the appeal and

accompanying documents are true and correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications. If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Deliver to:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Lois G. Lerner
Director, Exempt Organizations

Enclosure, Publication 892